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ANDREA "ANDY" BENNETT

STATE AUDITOR

MONTANA DEPARTMENT OF AGRICULTURE

LIMITED SCOPE
OPERATIONAL AUDIT
CONTINGENT REVOLVING FUNDS

Fiscal Year Ended June 30, 1988
March, 1989

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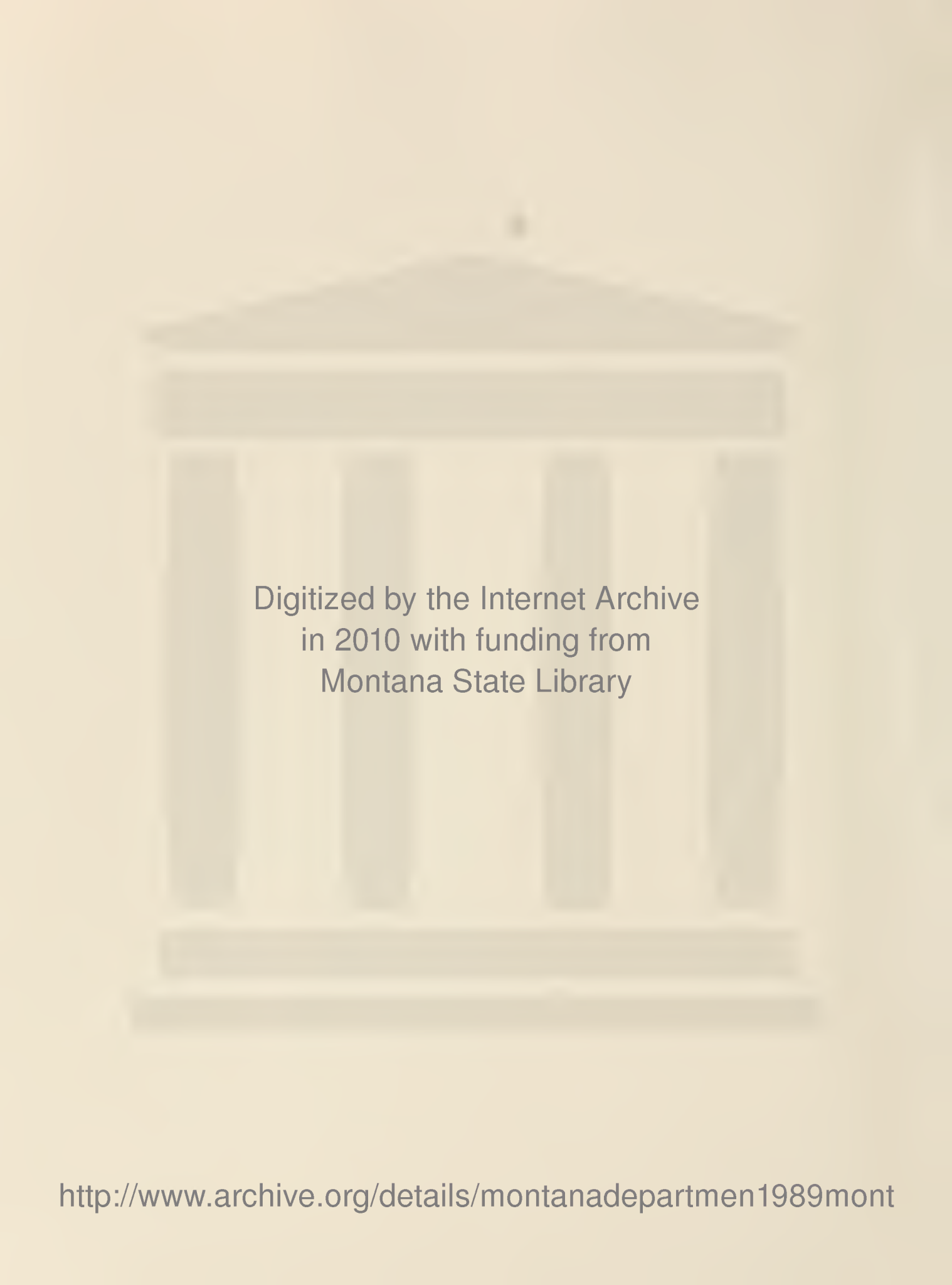
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STATE AUDITOR
STATE OF MONTANA

Andrea "Andy" Bennett
STATE AUDITOR

COMMISSIONER OF INSURANCE
COMMISSIONER OF SECURITIES

April 4, 1989

Mr. Everett Snortland, Director
Montana Department of Agriculture
Capitol Station
Helena, Montana 59620

Dear Mr. Snortland:

This is our audit report on the operational audit performed on the contingent revolving funds and related functions at the Montana Department of Agriculture. Our report contains two recommendations that are directed at improved internal operating policy.

We would like to thank the Montana Department of Agriculture for their assistance and cooperation provided throughout the audit process.

Sincerely,

Andrea "Andy" Bennett
State Auditor

AAB/jlp(449)
Encl.

Sam W. Mitchell Building/P.O. Box 4009/Helena, Montana 59604/ Telephone: (406) 444-2040/Toll Free 1-800-332-6148

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SUMMARY OF AUDIT RECOMMENDATIONS

RECOMMENDATION #1:

WE RECOMMEND THE DEPARTMENT DEVELOP AN INTERNAL OPERATING POLICY GOVERNING TRAVEL ADMINISTRATION. IMPLEMENTATION OF THIS RECOMMENDATION WILL HELP THE DEPARTMENT ADMINISTER ITS TRAVEL BY INFORMING ALL EMPLOYEES REQUIRED TO TRAVEL WHAT IS EXPECTED OF THEM.

Department of Agriculture response: CONCUR.

RECOMMENDATION #2:

WE RECOMMEND THE DEPARTMENT CLOSELY MONITOR EXPENSES CLAIMED ON TRAVEL EXPENSE VOUCHERS.

Department of Agriculture Response: CONCUR.

INTRODUCTION:

The State Auditor's Office conducted an operational audit of the Montana Department of Agriculture's use of their contingent revolving funds and related operations established through the Montana Department of Administration in accordance with Section 17-2-201, MCA. The period under examination was the fiscal year ended June 30, 1988.

The objectives of our audit were:

1. to determine the compliance with state laws and regulations governing non-treasury cash accounts;
2. evaluation of the efficiency of the use of the checking account system;
3. evaluation of internal controls;
4. determine needs of the department that might be incorporated into the new state warrant writing system;
5. determine if the authorized balances for the accounts are appropriate; and
6. Review the department's use of the State Auditor's emergency warrant process.

SCOPE:

Our audit was conducted in accordance with generally accepted governmental auditing standards for operational audits, and accordingly included such tests of the Montana

Department of Agriculture records and such other auditing procedures as we considered necessary in the circumstances. This audit did not include an examination of the financial schedules of the Montana Department of Agriculture and we therefore express no opinion thereon.

This report is intended solely for the use of the management staff of the Montana Department of Agriculture and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which, when accepted by the Montana Department of Agriculture, is a matter of public record.

We reviewed the use of the non-treasury cash revolving contingency funds maintained by the Montana Department of Agriculture to determine the extent of use and compliance with regulations established by the Department of Administration for the maintenance of cash accounts outside the state treasury.

We examined the operational aspects of the department concerning the use of the non-treasury cash accounts for the purpose of making recommendations to improve the system. As part of our review conducted in the department, we examined a sample of claims presented for payment through the contingent revolving account.

Section 17-2-201, MCA, provides authority to the Montana Department of Administration to authorize the establishment of non-treasury cash contingent revolving accounts for payment of demands requiring immediate payment. Examples of such expenditures are: Emergency travel advances, prepayment of subscription and book orders, postage, freight charges, and

invoices allowing a discount if paid within a specified period of time, too short to be paid through the state warrant system.

Section 17-2-201, MCA, also provides the Department of Administration with the authority to promulgate regulations for the establishment and use of the contingent revolving funds. The Department of Administration has developed regulations for the use of the revolving funds. They are found in the Montana Operations Manual, Chapter 2-1900.

The Montana Department of Agriculture has established a contingent revolving account at Bank of Montana with an authorized fund balance of $2,000.00 as of March, 1989.

BACKGROUND:

The Department of Agriculture was established by Article XII, Section I of the Montana Constitution. It is designed to encourage and promote the interests of all agricultural and allied industries in Montana; collect and publish statistics relating to the production and marketing of agricultural products; assist, encourage and promote the organization of farmers; gather and distribute marketing information; and administer regulations pertaining to production and marketing of food and fiber products (section 8-1-102, MCA).

The Director of Agriculture is responsible for the overall operations of the department. The director is appointed by and serves at the pleasure of the Governor. An organizational chart of the department can be found at the end of this report labeled as Exhibit I.

GENERAL OPERATIONS OF THE CONTINGENT REVOLVING FUND:

The contingent revolving account, maintained at a local Helena bank, is used primarily for travel advances and prepayment of subscriptions. During the audit period, $27,693.02 in expenditures were made from the account. The average balance in the account was $1586.91 for the audit period. A schedule of transaction activity can be found on page 9 of this report.

COMPLIANCE:

During our audit, we reviewed a sample of transactions processed through the contingent to test compliance with state law and policy governing the use of contingent revolving funds. As a result of our sample, we found nothing to indicate that the department was using the funds for other than intended purposes. The department is in substantial compliance with state law and policy for the use of non-treasury cash accounts.

INTERNAL CONTROLS:

The management of the department is responsible for developing, implementing and maintaining a system of internal controls that efficiently and effectively ensure that assets are properly safeguarded against unauthorized use, transactions are processed in accordance with the policy guidelines

established by management, and transactions are recorded in such a manner so as to permit the department's financial schedules to be prepared in accordance with generally accepted accounting principles. Because of inherent limitations in any system of internal controls, errors or irregularities may nonetheless occur and not be detected.

We reviewed the internal controls over the contingent revolving funds. As part of our review, we traced the process of transactions from the time a revolving fund check request is received by centralized services until it has been issued to a vendor or the requesting individual. Bank statements are received by personnel independent of the fund for the purpose of performing bank reconciliations.

During our audit, nothing came to our attention in the areas tested that would lead us to believe that material weaknesses exist in control procedures not tested.

TRAVEL ADVANCES:

Travel advances constitute the largest class of transactions processed through the contingent revolving fund (more than 90%). Rule 2.4.151 of the Administrative Rules of Montana allows agencies to provide travel advances to employees required to travel. The purpose of travel advances is to allow employees to travel without having to use personal finances to meet travel expenses. When travel has been completed, the employee is required to file a travel expense voucher with the required support documentation. In addition, if the amount of

the advance exceeds the amount of actual expenses incurred, the employee must repay that amount. If the expenses exceeded the amount of the advance, the state will then reimburse the employee accordingly.

Timeliness in filing travel claims is needed. The only state policy governing the filing of travel claims is found in the Administrative Rules of Montana for the Department of Administration. Therein, Rule 2.4.153 (2) states that an employee who does not file for reimbursement of travel costs within 3 months after incurring the expenses waives his right to reimbursement. This rule does not address the issue for instances involving travel advances.

During the audit, we noted one instance where an employee was issued a travel advance on September 11 of the audit period and the corresponding travel claim was not filed until November 24 of the audit period. When long periods of time are allowed to lapse, the risk of losing required support documents increases. Also, when uncleared travel advances are allowed to remain on the records for long periods of time, the advance may be forgotten until fiscal year-end. This situation complicates year-end closing and often creates unnecessary paper work.

RECOMMENDATION #1:

WE RECOMMEND THE DEPARTMENT DEVELOP AN INTERNAL OPERATING POLICY GOVERNING TRAVEL ADMINISTRATION. IMPLEMENTATION OF THIS RECOMMENDATION WILL HELP THE DEPARTMENT ADMINISTER ITS TRAVEL BY INFORMING ALL EMPLOYEES REQUIRED TO TRAVEL WHAT IS EXPECTED OF THEM.

ALLOWABLE REIMBURSEMENTS:

Administrative rule 2.4.141 for the Department of Administration provides for the reimbursement of miscellaneous expenses. Such allowable expenses include airport parking, taxi fares, and any working supplies purchased on an emergency basis. Excluded are tips and taxes on meals.

During the audit, we noted two instances of an employee being reimbursed for tips. Even though the administrative rules address this issue, we believe that a policy as suggested in Recommendation #1 will assist the department in assuring that traveling employees are aware of what expenses are allowable.

RECOMMENDATION #2:

WE RECOMMEND THE DEPARTMENT CLOSELY MONITOR EXPENSES CLAIMED ON TRAVEL EXPENSE VOUCHERS.

USE OF EMERGENCY WARRANTS:

As part of our audit, we reviewed the use of the emergency warrant process by the Department. In the audit period, the Department requested five emergency warrants for a total of $5,612.73. In our opinion, the Department's use of the emergency warrant process was reasonable and justified.

CONCLUDING COMMENTS:

Other than the issues discussed relating to our two recommendations, we find that the Department is in substantial compliance with state laws and policies relating to the use of contingent revolving accounts. Further, in our opinion, the authorized fund balance appears to be reasonable and adequate.

MONTANA DEPARTMENT OF AGRICULTURE
Schedule of Account Balances
Contingent Revolving Funds
Fiscal Year Ended June 30, 1988

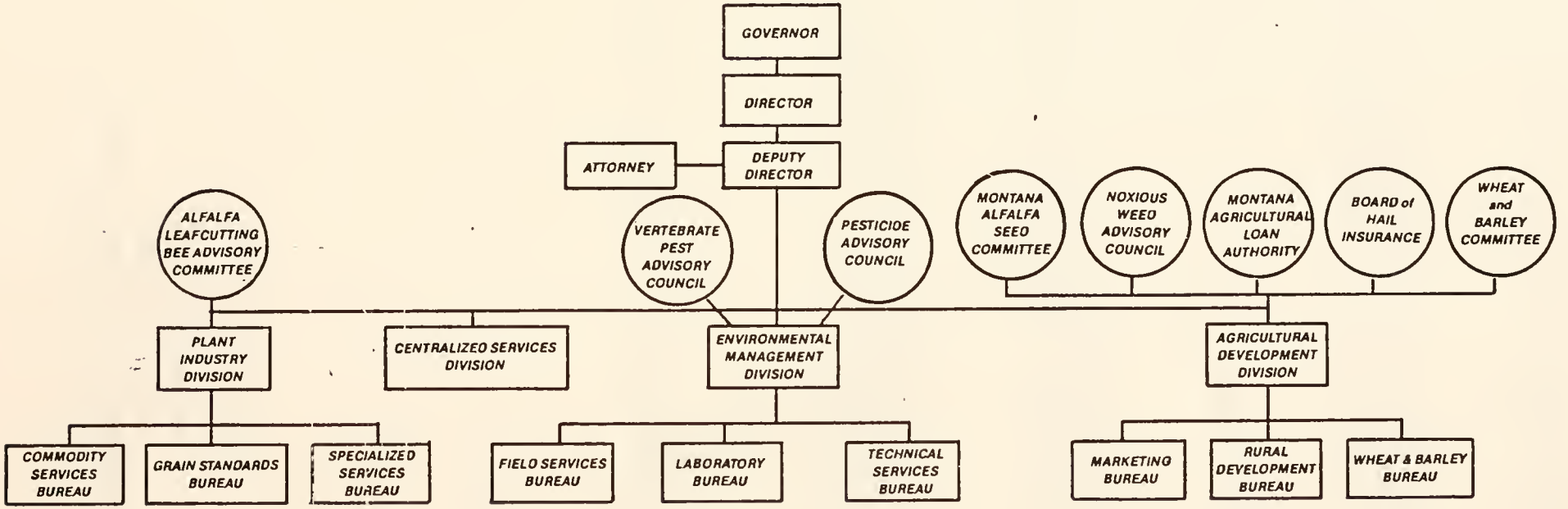
Month	Beginning Balance	Debits	Credits	Ending Balance
July, 1987	646.39	3,784.01	4,361.56	1,223.94
August, 1987	1,223.94	2,518.56	2,822.28	1,527.66
September, 1987	1,527.66	3,843.14	3,236.54	921.06
October, 1987	921.06	1,811.08	2,318.18	1,428.16
November, 1987	1,428.16	2,681.60	3,253.44	2,000.00
December, 1987	2,000.00	1,537.76	1,537.76	2,000.00
January, 1988	2,000.00	2,129.48	2,283.98	1/2,154.50
February, 1988	2,154.50	2,000.42	1,581.62	1,735.70
March, 1988	1,735.70	1,488.96	1,415.50	1,662.24
April, 1988	1,662.24	2,175.62	2,066.08	1,552.70
May, 1988	1,552.70	1,888.90	1,605.78	1,269.58
June, 1988	1,269.58	1,833.49	2,283.61	1,719.70
	18,121.93	27,693.02	28,766.33	19,195.24

1/ This balance exceeds the authorized $2,000 balance because of timing difference created by a time lag between issued checks clearing the account and reimbursements made to the account.

Source: Prepared by the State Auditor's Office from Department of Agriculture Financial Records.

JL/amp(450)

EXHIBIT 1



ORGANIZATIONAL CHART
MONTANA
DEPARTMENT OF AGRICULTURE

Submitted by _____
Keith Kelly, Director

Approved by _____
Ted Schwinden, Governor

STAN STEPHENS
GOVERNOR

STATE OF MONTANA
DEPARTMENT OF AGRICULTURE
OFFICE OF THE DIRECTOR
AGRICULTURE/LIVESTOCK BLDG.
CAPITOL STATION
HELENA, MONTANA 59620-0201

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EVERETT M. SNORTLAND
DIRECTOR

March 31, 1989

Ms. Andrea Bennett
State Auditor
Sam W. Mitchell Building
P.O. Box 4009
Helena, MT 59604

Dear Ms. Bennett:

Thank you for this opportunity to respond to the draft audit report on the Department of Agriculture's contingent revolving funds.

RECOMMENDATION #1:

"We recommend the department develop an internal operation policy governing travel administration. Implementation of this recommendation will help the department administer its travel by informing all employees required to travel what is expected of them."

RESPONSE

The Department of Agriculture concurs that an internal policy on travel advances and administration would be advantageous. We will work to develop an appropriate policy.

RECOMMENDATION #2:

"We recommend the department closely monitor expenses claimed on travel expense vouchers."

RESPONSE

The Department of Agriculture will reemphasize administrative rule 2.4.141 to employees and be sure that our accounting and administrative staff monitors expense claims for travel expense vouchers.

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